Data Snapshot

Tuesday, 19 August 2014

Bank of Melbourne

Minutes of the August RBA Board Meeting

Still in a Balancing Act

- **The RBA minutes of the August meeting unsurprisingly reiterated that "the most prudent course was likely to be a period of stability in interest rates" suggesting that the central bank will continue to sit pat for some time.**
- **The RBA expects GDP to have grown at a moderate pace in the June quarter and to be below trend over 2014-15. Indeed, this less than upbeat assessment on the economy was reflected in the RBA's latest growth forecasts, published in the August Statement on Monetary Policy.**
- **There was some further evidence of caution regarding the current economic recovery. The RBA Board members noted that "there was inevitably a significant degree of uncertainty about the outlook, given the number of forces working in different directions".**
- **The RBA's concerns continue to be the transition from declining mining investment, particularly given fiscal consolidation and the high Australian dollar.**
- **RBA Governor Glenn Stevens will speak before Parliament tomorrow in his semi-annual testimony. Stevens may shed some more light on the RBA's thoughts on the economy and monetary policy.**
- **The RBA will clearly need some further evidence that the recovery is strengthening before looking to raise rates. It is unlikely to get enough evidence before the end of the year. However, dwelling investment, strong export growth and household consumption are still expected to support growth. We expect that this recovery, while uneven, will continue and that the need for record low interest rates will eventually pass.**

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The RBA Board members noted that "there was inevitably a significant degree of uncertainty about the outlook, given the number of forces working in different directions". This concern over the impact of major shocks facing the domestic economy, including the sharp decline in mining investment and the transition to growth driven by more non-mining sectors, has been noted previously by the RBA. However, this "uncertainty" could also highlight an increased risk of a revision to these growth forecasts.

The recovery in non-mining investment remained tentative. "Liaison continued to indicate that firms were reluctant to undertake significant investment projects until they experienced a sustained period of strong demand."

Board members had also noted that inflation in the June quarter had been "a little higher than expected." However, the RBA has hinted that it is quite relaxed about the inflation outlook. Further, the RBA's latest inflation forecasts were revised lower in the near-term, thanks to the impact of the carbon price repeal, although it is expected that the RBA will likely look through this impact. Additionally, the RBA expects inflation to be consistent with its 2 to 3 per cent inflation target.

The RBA devoted some commentary to the low volatility in financial markets, and noted that in foreign exchange markets, "volatility remaining around historic lows". The concerns surrounding the Australian dollar's resilience remained, and the RBA continued to highlight the misalignment of the Australian dollar with fundamentals. Again, the RBA referred to lower commodity prices, but in these minutes, the RBA also pointed out that interest rate differentials between Australia and most other advanced economies had narrowed.

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The Detail